

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION**

Case Name: Approach Resources Inc., et al.
Case Number: 19-36444 (MI)

Petition Date: November 18, 2019

Monthly Operating Report Summary for the Period Ending

Monthly Period (USD \$ thousands)	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20
Revenues (MOR-6)	2,326	5,773	-	-	-	-	-
Operating Income (MOR-6)	(1,170)	(882)	-	-	-	-	-
Net Income (Loss) (MOR-6)	(1,531)	(3,703)	-	-	-	-	-
Payments to Insiders (MOR-9)	26	54	-	-	-	-	-
Payments to Professionals (MOR-9)	-	473	-	-	-	-	-
Total Disbursements (Exhibit A)	1,276	6,533	-	-	-	-	-

****The jointly administered Debtors are authorized to file monthly operating reports on a combined basis, and have disbursements broken down by case number on Exhibit A attached****

****The original of this document must be filed with the United States Bankruptcy Court****

Required Insurance Maintained

As of Signature Date	[Check Yes / No]	Exp. Date
Excess Liability	Yes (X) No ()	Jan-20
Worker's Compensation	Yes (X) No ()	Jul-20
General Liability	Yes (X) No ()	Jan-20
Auto Liability	Yes (X) No ()	Jan-20
Other	Yes (X) No ()	Various

Are all accounts receivable being collected within terms?

Circle One
Yes No

Are all post-petition liabilities, including taxes, being paid within terms?

Yes No

Have any pre-petition liabilities been paid?

Yes No

If so, describe Mineral Interest Owner Obligations and Operating Cost Expenses (DI #26), Taxes and Assessments (DI# 27), Wages, Salaries, Employee Benefits and Other Compensation (DI# 28),

Are all funds received being deposited into DIP bank accounts?

Yes No

Were any assets disposed of outside the normal course of business?

Yes No

If so, describe N/A

What is the status of your Plan of Reorganization?

Plan of Reorganization to be filed on or before 03/09/2020 in accordance with DIP Order (DI #110)
(as modified by Bid Procedures Order (DI #107))

Attorney Name: David Bennett
Firm Name: Thompson & Knight LLP
Address: One Arts Plaza, 1722 Routh Street.
Suite 1500, Dallas, TX, 75201
City, State, ZIP: Dallas, TX, 75201
Telephone/Fax: 214-969-1486

I certify under penalty of perjury that the following complete

Monthly Operating Report (MOR), consisting of MOR-1 through MOR-9 plus attachments, is true and correct.

SIGNED X


(Original Signature)

Title: EVP Finance & Accounting

Ian Shaw

(Print Name of Signatory)

1/31/2020

Date

Notes:

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**GLOBAL NOTES AND STATEMENTS OF LIMITATIONS AND
DISCLAIMERS REGARDING THE DEBTORS' MONTHLY OPERATING REPORT**

On November 18, 2019 (the "Petition Date"), Approach Resources Inc., et al. and certain of its affiliated debtors, as debtors and debtors in possession (collectively, the "Debtors"), each commenced with the United States Bankruptcy Court for the Southern District of Texas (the "Court") a voluntary case under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code"). The Debtors are authorized to continue operating their businesses and managing their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. On November 18, 2019, the Bankruptcy Court entered an order authorizing the joint administration of these cases pursuant to Rule 1015(b) of the Federal Rules of Bankruptcy Procedure.

1. **General Methodology:** The Debtors are filing this monthly operating report (the "MOR") solely for purposes of complying with the monthly operating requirements of the Debtors' chapter 11 cases. The financial information contained herein is unaudited, limited in scope, and as such, has not been subjected to procedures that would typically be applied to financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The MOR should not be relied on by any persons for information relating to current or future financial condition, events, or performance of any of the Debtors or their affiliates, as the results of operations contained herein are not necessarily indicative of results that may be expected from any other period or for the full year, and may not necessarily reflect the combined results of operations, financial position, and schedule of receipts and disbursements in the future. There can be no assurance that such information is complete, and the MOR may be subject to revision. The following notes, statements, and limitations should be referred to, and referenced in connection with, any review of the MOR.
2. **Basis of Presentation:** For financial reporting purposes, the Debtors prepare consolidated financial statements, which include information for Approach Resources Inc., and its Debtor Affiliates. This MOR only contains financial information of the Debtors. For the purposes of MOR reporting, the accompanying Balance Sheets and Statement of Income (Loss) of the Debtors have been prepared on a condensed combined basis. The Debtors are maintaining their books and records in accordance with U.S. GAAP and the information furnished in this MOR uses the Debtors' normal accrual method of accounting. In preparing the MOR, the Debtors relied on financial data derived from their books and records that was available at the time of preparation. Nevertheless, in preparing this MOR, the Debtors made reasonable efforts to supplement the information set forth in their books and records with additional information concerning transactions that may not have been identified therein. Subsequent information or discovery may result in material changes to the MOR and errors or omissions may exist. Notwithstanding any such discovery, new information, or errors or omissions, the Debtors do not undertake any obligation or commitment to update this MOR. The financial statements presented herein reflect the book values of the Debtor Entities of Approach Resources Inc., and, as a result, do not reflect the going concern valuation of the Debtors. The Company is not liable for and undertakes no responsibility to indicate variations from securities laws or for any evaluations of the Company based on this financial information or any other information.
3. **Reporting Period:** Unless otherwise noted herein, the MOR generally reflects the Debtors' books and records and financial activity occurring during the applicable reporting period. Except as otherwise noted, no adjustments have been made for activity occurring after the close of the reporting period.
4. **Accuracy:** The financial information disclosed herein was not prepared in accordance with federal or state securities laws or other applicable non-bankruptcy law or in lieu of complying with any periodic reporting requirements thereunder. Persons and entities trading in or otherwise purchasing, selling, or transferring the claims against or equity interests in the Debtors should evaluate this financial information in light of the purposes for which it was prepared. The Debtors are not liable for and undertake no responsibility to indicate variations from securities laws or for any evaluations of the Debtors based on this financial information or any other information.

5. **Payment of Prepetition Claims Pursuant to First Day Orders:** On or around November 18, 2019 and December 13, 2019, the Bankruptcy Court entered orders (the "First Day Orders" and "Final First Day Orders", respectively) authorizing, but not directing, the Debtors to, among other things, pay certain prepetition (a) liabilities related to use of the Debtors' cash collateral, and continued use of their cash management system, (b) insurance obligations, (c) employee wages, salaries, and related items, (d) interest owner obligations, (e) operating costs and expenses, and (f) taxes and assessments. If any payments were made on account of such claims following the commencement of these chapter 11 cases pursuant to the authority granted to the Debtors by the Bankruptcy Court under the First Day Orders, such payments have been included in this MOR unless otherwise noted.
6. **Liabilities Subject to Compromise ("LSTC"):** LSTC represent the Debtors' estimate of pre-petition claims to be resolved in connection with the chapter 11 cases. As a result of the chapter 11 filings, the payment of pre-petition liabilities are subject to compromise or other treatment under a plan of reorganization. The determination of how liabilities will ultimately be settled or treated cannot be made until the Bankruptcy Court approves a chapter 11 plan or reorganization. Accordingly, the ultimate amount of such liabilities is not determinable at this time. Pre-petition liabilities that are subject to compromise under ASC 852 are preliminary and may be subject to, among other things, future adjustments depending on Court actions, further developments with respect to disputed claims, determinations of the secured status of certain claims, the values of any collateral securing such claims, rejection of executory contracts, continued reconciliation or other events. On 11/20/2019, the Court entered an order setting 4/8/2020 as the deadline for the filing of proofs of claim against the Debtors for non-governmental entities.
7. **Reorganization Items:** ASC 852 requires expenses and income directly associated with the chapter 11 filings to be reported separately in the income statement as reorganization items. Reorganization items primarily include write-off of certain original issue discount and fees relating to debt obligations classified as LSTC, expenses related to legal advisory and representation services, other professional consulting and advisory services, and changes in liabilities subject to compromise recognized as there are changes in amounts expected to be allowed as claims. Nothing contained in this MOR shall constitute a waiver of any of the Debtors' rights or an admission with respect to their chapter 11 proceedings, including, but not limited to, matters involving objections to claims, substantive consolidation, equitable subordination, defenses, characterization or re-characterization of contracts, assumption or rejection of contracts under the provisions of chapter 3 of Title 11 of the Bankruptcy Code and/or causes of action under the provisions of chapter 5 of the Bankruptcy Code or any other relevant applicable laws to recover assets or avoid transfers.
8. **Intercompany Transactions and Balance:** Prior to the Petition Date (and subsequent to the Petition Date but only pursuant to Bankruptcy Court approval), the Debtors routinely engaged (and continue to engage) in intercompany transactions among the Debtors. Intercompany transactions among the Debtors have been eliminated in the statement of cash flows, and have not been eliminated in the balance sheet and income statement contained herein, as these eliminations are only performed in consolidation.
9. **Investments in Subsidiaries:** The book basis for investments in subsidiaries are not representative of the fair value or net assets of Debtor and non-debtor subsidiaries. As such, these balances are reflected in the Balance Sheets as a component of Equity.
10. **Insiders:** For purposes of this MOR, the Debtors defined "insiders" pursuant to section 101(31) of the Bankruptcy Code as: (a) directors; (b) officers; (c) persons in control of the Debtors; (d) relatives of the Debtors' directors, officers, or persons in control of the Debtors; and (e) Debtor and non-Debtor affiliates of the foregoing. Moreover, the Debtors do not take a position with respect to: (a) any insider influence over the control of the Debtors; (b) the management responsibilities or functions of any such insider; (c) the decision making or corporate authority of any such insider; or (d) whether the Debtors or any such insider could successfully argue that he or she is not an "insider" under applicable law, with respect to any theories of liability, or for any other purpose.
11. **Reservation of Rights:** The Debtors reserve all rights to amend or supplement the MOR in all respects, as may be necessary or appropriate, but shall be under no obligation to do so. Nothing contained in this MOR shall constitute a waiver of any of the Debtors' rights or an admission with respect to their chapter 11 cases.

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Case Name: Approach Resources Inc., et al.
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Petition Date: November 18, 2019

Comparative Balance Sheets

Assets (USD \$ thousands) (1)	30-Nov-19	31-Dec-19	31-Jan-20	29-Feb-20	31-Mar-20	30-Apr-20	31-May-20
Cash & Cash Equivalents	8,054	8,621					
Restricted Cash	-	-					
Joint Interest Billing Receivable	75	99					
Oil & Natural Gas Receivable	5,528	5,694					
Unrealized gain on commodity derivatives	111	-					
Prepaid expenses and other current assets	2,341	2,190					
Total Current Assets	16,109	16,604	-	-			
Oil and Gas Properties	1,977,029	1,979,693					
Furniture, fixtures and equipment	3,855	3,855					
Less: accumulated depletion, depreciation, and amortization	(960,371)	(964,468)					
Right of Use Assets, Net	10,917	9,229					
Other Long Term Assets	-	-					
Total Assets	1,047,540	1,044,914	-	-			

Notes:

(1) Excludes intercompany balances and entries only recorded in consolidation.

Case 19-36444 Document 240 Filed in TXSB on 01/31/20 Page 4 of 12

**IN THE UNITED STATES BANKRUPTCY COURT
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Petition Date: November 18, 2019

Comparative Balance Sheets

Liabilities and Equity (USD \$ thousands) (1)	30-Nov-19	31-Dec-19	31-Jan-20	29-Feb-20	31-Mar-20	30-Apr-20	31-May-20
Accounts Payable ⁽²⁾	1,237	6,417					
Oil and gas sales payable	4,280	4,288					
Operating Lease Liability	6,603	9,321					
DIP Facility	-	24,750					
Accrued Liabilities	6,319	4,051					
Short-term Debt	-	-					
Total Current Liabilities	18,438	48,826	-	-			
Senior Secured Credit Facility	-	-					
Long Term Notes	-	-					
Deferred Income Taxes	62,928	61,986					
Asset Retirement Obligations	11,799	11,889					
Long-Term Operating Lease Liabilities	4,409	-					
Other noncurrent liabilities	2	-					
Total Long Term Liabilities	79,138	73,875	-	-			
Liabilities Subject to Compromise	419,132	395,020					
Equity / Retained Earnings (Deficit)	530,832	527,193					
Total Liabilities And Equity	1,047,540	1,044,914	-	-			

Notes:

(1) Excludes intercompany balances and entries only recorded in consolidation.

(2) Comprised of both DIP Interest Payable and Trade Payables

Case 19-36444 Document 240 Filed in TXSB on 01/31/20 Page 5 of 12

**IN THE UNITED STATES BANKRUPTCY COURT
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Case Name: Approach Resources Inc., et al.
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Petition Date: November 18, 2019

Schedule of Post-Petition Liabilities

Post-Petition Liabilities (USD \$ thousands) (1)	30-Nov-19	31-Dec-19	31-Jan-20	29-Feb-20	31-Mar-20	30-Apr-20	31-May-20
Accounts Payable	1,237	6,333					
Accrued Interest	-	84					
Oil and gas sales payable	4,280	4,288					
Operating Lease Liability	6,603	9,321					
DIP Facility	-	24,750					
Accrued Liabilities	6,319	2,113					
Accrued Professional Fees	-	1,938					
Short-term Debt	-	-					
Total Post-Petition Liabilities	18,438	48,826	-	-	-	-	-

Notes:

(1) Excludes intercompany balances and entries only recorded in consolidation.

Case 19-36444 Document 240 Filed in TXSB on 01/31/20 Page 6 of 12

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Aging of Post-Petition Liabilities and Aging of Accounts Receivable

(USD \$ thousands)

Aging of Post-Petition Liabilities as of December 31, 2019

Days	Accounts Payable	Operating Lease Liability	Accrued Liabilities	Accrued Professional Fees	Accrued Interest	Oil and gas sales payable	Total
Current	6,278	9,321	2,113	1,938	84	4,288	24,021
0-30	55	-	-	-	-	-	55
31-60	-	-	-	-	-	-	-
61-90	-	-	-	-	-	-	-
91+	-	-	-	-	-	-	-
Total	6,333	9,321	2,113	1,938	84	4,288	24,076

Aging of Accounts Receivable (1)

Days	31-Dec-19
Current	5,752
0-30	15
31-60	15
61-90	10
91+	1
Total	5,794

Notes:

(1) Accounts receivable aging excludes unbilled / accrued revenue.

Case 19-36444 Document 240 Filed in TXSB on 01/31/20 Page 7 of 12

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Statement of Income (Loss) for the Period Ending

Profit and Loss (USD \$ thousands) (1)	30-Nov-19	31-Dec-19	31-Jan-20	29-Feb-20	31-Mar-20	30-Apr-20	31-May-20
Oil and Gas Revenue	2,326	5,773					
Expenses:							
Lease Operating	596	1,329					
Production & Ad Valorem Taxes	251	153					
Exploration	-	-					
Impairment	-	-					
Depreciation, depletion and amortization	1,733	4,238					
General and Administrative	460	754					
Restructuring Cost	462	180					
Plugging and abandonment costs	1	(25)					
Loss (gain) on sale of assets	(8)	26					
Total Operating Cost and Expenses	3,496	6,655	-	-			
Operating Income (Loss)	(1,170)	(882)					
Interest Expense, net	(700)	(84)					
Realized (loss) on commodity derivatives	142	(144)					
Unrealized (loss) on commodity derivatives	(193)	(111)					
Reorganization items	-	(3,425)					
Other expense	-	-					
Income (Loss) before income taxes	(1,920)	(4,645)	-	-			
Income Tax Expense (Benefit)	(389)	(942)					
Net Income (Loss)	(1,531)	(3,703)	-	-			

Notes:

(1) The period ending: "30-Nov-19" represents Post-Petition activity from 11/18/19 through 11/30/19.

Case 19-36444 Document 240 Filed in TXSB on 01/31/20 Page 8 of 12

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Cash Receipts and Disbursements for the Period Ending

Book Cash Receipts and Disbursements (USD \$ thousands) (1) (2) (3) (4)	30-Nov-19	31-Dec-19	31-Jan-20	29-Feb-20	31-Mar-20	30-Apr-20	31-May-20
BEGINNING BOOK CASH	2,440	8,054					
Total Receipts	6,861	6,980					
<u>Operating Disbursements</u>							
Payroll & Benefits	(375)	(520)					
Royalty and WI payments	-	(1,832)					
AP Payments	(900)	(1,858)					
Operating Cash Flow	5,586	2,770					
<u>Non-Operating Disbursements/Receipt</u>							
Restructuring Costs	-	(473)					
Interest and Fees	-	(630)					
Other	28	67					
Total Non-Operating Disbursements	28	(1,035)					
NET CASH FLOW PRIOR TO DIP FINANCING	5,614	1,735					
DIP Draw (Paydown)	-	-					
NET CASH FLOW	5,614	1,735					
(+ / -) Voids / Reversals / Other	-	-					
ENDING BOOK CASH	8,054	9,789					
Less: Restricted Cash	-	-					
ENDING UNRESTRICTED BOOK CASH	8,054	9,789					

- (1) The period ending: "30-Nov-19" and "31-Dec-19" represents weekly activity for the weeks ending 11/24, 12/1 and 12/8, 12/15, 12/22, 12/29 respectively.
(2) Beginning Book Cash for "30-Nov-19" represents cash balance as of 11/18/19.
(3) Amounts reflected above are presented on a weekly basis consistent with the reporting requirements under the Final Financing Order (DI# 110)
(4) Period ending: "31-Dec-19" excludes cash receipts/(disbursements) of (\$1.1M) from 12/30/19 - 12/31/19. To be reflected in January MOR.

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Cash Account Reconciliation

(USD \$ thousands)

Bank Account Balances as of December 31, 2019

Bank	Legal Entity	Account #	Type	Balance
Frost Bank	Approach Operating, LLC	xxxxx9617	Operating Account	9,839
Frost Bank	Approach Operating, LLC	xxxxx2381	Revenue Account	169
JP Morgan	Approach Operating, LLC	xxxxx0939	Dormant	36
Frost Bank	Approach Oil and Gas Inc.	xxxxx2394	Dormant	7
Frost Bank	Approach Resources I, LP	xxxxx0788	Derivative Account	1
Frost Bank	Approach Midstream Holdings, LLC	xxxxx3899	Dormant	1
Frost Bank	Approach Resources Inc.	xxxxx5598	Second Derivative Account	80
Invesco	Approach Resources Inc.	xxxxx9148	Dormant	17
Total Cash				10,149

Book-To-Bank Cash Reconciliation

Beginning Book Balance ⁽¹⁾	8,054
(+/-) Net Book Cash Flow (MOR-7)	1,735
(+/-) Stub period activity ⁽²⁾	(1,169)
Ending Book Balance (MOR-2)	8,621
(-) Offsite Restricted Cash	-
(+/-) Cash In Transit, Outstanding Checks, & Other	1,528
Ending Bank Balance	10,149

Notes:

- (1) The Beginning Book Balance reflects the balance as of 11/30/19.
(2) Represents cash activity between latest reporting week on MOR-7 and end of calendar month.

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Total Disbursements by Debtor Entity for the Period Ending

(USD thousands \$) (1)

Total Disbursements By Debtor Entity

Debtor Case #	Legal Entity Name	30-Nov-19	31-Dec-19	31-Jan-20	29-Feb-20
19-36444	Approach Resources Inc.	22	42		
19-36445	Approach Midstream Holdings LLC	-	-		
19-36448	Approach Oil & Gas, Inc.	-	-		
19-36442	Approach Operating, LLC	1,254	6,491		
19-36450	Approach Delaware, LLC	-	-		
19-36454	Approach Services, LLC	-	-		
19-36440	Approach Resources I, LP	-	-		
Total		1,276	6,533	-	-

Notes:

(1) Period of "31-Dec-19" includes all disbursements through 12/31/19

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Payments to Insiders and Professionals for the Period Ending

Payments to Insiders & Professionals (USD \$ thousands)	30-Nov-19	31-Dec-19	31-Jan-20	29-Feb-20	31-Mar-20	30-Apr-20	31-May-20
Total Payments to Insiders							
Sergei Krylov (President and CEO)	5	11					
Josh Dazey (EVP - Legal, and Secretary)	10	20					
Troy A. Hoefer (EVP - Operations)	3	5					
Ian Shaw (EVP - Finance and Accounting)	9	18					
James C. Crain (Board of Directors)	-	-					
Vean J. Gregg III (Board of Directors)	-	-					
Alan D. Bell (Board of Directors)	-	-					
Matthew R. Kahn (Board of Directors)	-	-					
Total Payment to Insiders	26	54	-	-	-	-	-

Payments to Professionals (1)

Debtor Retained Professionals:

1. PWP / TPH Debtor's Investment Bank	-	-					
2. Thompson Knight Debtor's Co-Counsel	-	-					
3. Alvarez & Marsal Financial Advisor	-	-					
4. Epiq Debtor's Claims Agent	-	43					
5. KPMG Tax Advisor	-	-					

Creditor Professionals:

6. Vinson & Elkins Bank Lender Counsel	-	406					
7. Opportune Bank Lender Advisor	-	-					
8. Haynes & Boone Bank Lender Counsel	-	24					

Other Professionals:

9. US Trustee (Quarterly)	-	-					
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Total Payments to Professionals (1)	-	473	-	-	-	-	-
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Notes:

(1) Payments to ordinary course professionals are not included in MOR-9.